Should You Buy Brookfield Asset Management Inc.'s Latest Spinoff?

Description

Last month **Brookfield Asset Management Inc.** (TSX:BAM.A)(NYSE:BAM) completed the partial spinoff of **Brookfield Business Partners L.P.** (TSX:BBU.UN)(NYSE:BBU). In doing so, the company completed the public listing of the last of its four operating platforms by providing the business services and industrial operations of its private equity platform a home of their own.

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However, those businesses are quite different from those owned by Brookfield's three other listed entities. Because of that, buyers of Brookfield's latest spinoff need to have an entirely different mindset and focus than its typical investors.

Brookfield Business Partners 101

At the time of the spinoff, Brookfield Business Partners's initial operations consisted of business services and industrials. Headlining the business services segment is construction services company Brookfield Multiplex, which is a leading international contractor that focuses on building landmark projects.

In addition, the entity will also house the company's commercial and residential real estate services business, which provides a variety of real estate services, facilities management, and financial services. While these are relatively steady businesses, their underlying earnings are economically sensitive.

Meanwhile, the industrials segment consists of several companies focused on the energy, industrial manufacturing, and the metals and mining sectors.

In energy, Brookfield Business Partners owns a stake in a natural gas producer in western Canada, an Australian oil and gas producer, and a contract drilling and well-servicing business.

Its industrials segment, meanwhile, owns a stake in five businesses, including a manufacturer of bath and shower products for the residential housing market, a graphite electrode manufacturer, and specialty metals and mining operations.

These businesses are very economically sensitive as well as exposed to the volatile commodities market.

More risk, more potential reward

What sets Brookfield Business Partners apart is that the underlying earnings of its businesses are very cyclical. For the most part, Brookfield acquired these businesses during the cyclical lows with plans to hold them through the next cyclical high. This is in direct contrast to its three other listed entities, which have earnings supported by long-term contracts that are backed by assets in the power, real estate, and infrastructure segments.

In a sense, Brookfield Business Partners is a higher-risk, higher-reward entity than its siblings, which are primarily focused on generating a growing income stream for investors. Instead, Brookfield is targeting a 15% annual return from this entity, which is much higher than the high-single-digit to low-teens growth projected at its other entities. Because of this difference, Brookfield Business Partners would appeal to a different investor base.

Further, there is likely to be turnover in the portfolio of businesses Brookfield Business Partners owns. The company not only intends to invest in multiple industries in the future, but it will sell some businesses to harvest their value. In other words, the Brookfield Business Partners of today might look very different five years from now.

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Investor takeaway

Investors considering Brookfield Business Partners need to realize that it is very distinct from its parent's three other listed partnerships. Because its businesses operate in cyclical and economically sensitive sectors, the company's underlying earnings could fluctuate wildly. That said, earnings can swing to the upside, which is what provides investors with the potential to earn a much higher reward through capital appreciation.

CATEGORY

1. Energy Stocks
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2. TSX:BN (Brookfield)

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